No. 92-1123

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1992

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Petitioner,

v.

U.S. PHILIPS CORPORATION, NORTH AMERICAN PHILIPS CORPORATION, N.V. PHILIPS GLOEILAMPENFABRIEKEN, and WINDMERE CORPORATION,
Respondents.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF OF AMICUS CURIAE SEARS, ROEBUCK & CO. ON THE MERITS IN SUPPORT OF PETITIONER

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April 22, 1993

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MOTION OF SEARS, ROEBUCK & CO. FOR LEAVE TO FILE AMICUS CURIAE BRIEF

Sears, Roebuck & Co. ("Sears") respectfully requests leave to file the accompanying brief as *amicus curiae* in support of Petitioner. Sears has sought consent to file its brief from Petitioner Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi") and the Philips Respondents ("Philips")*. Petitioner has granted consent, but Philips has refused. Sears has a direct interest in the resolution of this case.

The Court has granted certiorari to consider whether courts of appeals should routinely vacate lower court

*U.S. Philips Corporation, North American Philips Corporation, and N.V. Philips Gloeilampenfabrieken.

judgments when cases are settled while on appeal. This case, in particular, involves the Federal Circuit's order vacating a Florida district court's judgment that rejected Philips' trade dress claim against a distributor of Izumi's rotary electric shaver. In an action filed in the district court in Illinois, Philips has brought a similar trade dress claim against Sears, which is also a distributor for Izumi. Sears defense of issue preclusion based on the Florida judgment – accepted by the Illinois district court until the Federal Circuit vacated the Florida judgment – is directly placed in jeopardy by the vacatur. Indeed, because of the Federal Circuit's vacatur order, Philips' trade dress claim has been reinstated by the Illinois court. Sears thus has an immediate and substantial interest in this Court's reversal of the Federal Circuit decision.

Sears' perspective will also assist the Court in its consideration of the case. One of the central issues presented is whether third-party interests like Sears' should be considered before a final judgment is vacated at the behest of the parties who settle on appeal. Sears respectfully submits that by presenting arguments against automatic vacatur following settlement from the standpoint of a party actually affected in this case by that practice, Sears' *amicus curiae* brief will materially assist the Court in resolving the issues before it.

Accordingly, Sears urges the Court to grant this motion.

Respectfully submitted,

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QUESTION PRESENTED

Whether the United States Court of Appeals for the Federal Circuit properly vacated the final judgment of the Southern District of Florida at the request of Philips and Windmere after they settled during appeal?

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BRIEF OF AMICUS CURIAE SEARS, ROEBUCK & CO. ON THE MERITS IN SUPPORT OF PETITIONER

This *amicus curiae* brief is submitted to support the relief sought by the Petitioner, Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi").

INTEREST OF THE AMICUS

The interest of *amicus* Sears, Roebuck & Co. ("Sears"), which sells Izumi-manufactured shavers, arises out of a suit brought against Sears in the U.S. District Court for

the Northern District of Illinois.[1] One of the plaintiffs in that suit, North American Philips Corporation ("Philips"), asserted that Sears had misappropriated the alleged trade dress of Philips' shavers, referred to in Philips' complaint as the shavers' "Design Impression." The same plaintiffs presented essentially the same claims against Izumi's distributor Windmere in the Florida case that gives rise to this appeal.

After the Florida district court entered judgment finding that Philips had no valid trade dress rights in the "Design Impression" of its shavers, the Illinois court dismissed Philips' similar claims against Sears as collaterally estopped by the Florida judgment. When the Federal Circuit vacated the Florida judgment on the basis of a settlement on appeal, however, the Illinois court vacated its prior collateral estoppel decision and reinstated the trade dress claims. Thus, this Court's decision on the propriety of the Federal Circuit's vacatur will significantly affect Sears in the Northern District of Illinois.

FACTS

In granting summary judgment because of collateral estoppel, the court in Illinois noted that "the *Windmere* court has already determined that Philips' trade dress is not protected" and "twice Philips has litigated these essential elements in *Windmere* and twice the jury found that Philips had not proven the required elements." In addition, the Florida district court denied Philips' motions for JNOV and new trial, ruling that "the evidence at trial

[1] *U.S. Philips Corp. and North American Philips Corp. v. Sears, Roebuck & Co. and Izumi Seimitsu Kogyo Kabushiki Kaisha*, No. 85 C 05366.

substantially showed that [Philips'] trade dress was functional" and, therefore, not protectable. (Joint Appendix, "J.A.", 152a). Although Philips initially took an appeal to the Federal Circuit from the adverse judgment on the trade dress claim (as well as on Windmere's antitrust claim against Philips), Philips eventually withdrew the appeal after paying Windmere $57 million to settle the case. Then Philips and Windmere asked the Federal Circuit to vacate the district court judgment.

In seeking vacatur, Philips admittedly was trying to eliminate any collateral effect of the Florida decision on the Illinois case. The Federal Circuit acceded to the request, reasoning that since the settlement rendered the dispute between Windmere and Philips moot, the district court judgment had to be vacated under Federal Circuit precedent. The court so held despite the potential reinstatement of the trade dress claim against Sears in Illinois, the cost to Sears and Izumi of defending that claim, and the cost to the judicial system of still another trial of Philips' trade dress allegation.

Those costs are significant and real. After the Federal Circuit ruling, the Illinois court vacated its prior collateral estoppel summary judgment ruling and reinstated the trade dress claims. Thus, the Federal Circuit's vacatur of the Florida judgment paves the way for Philips to argue that it should be given yet another attempt to prove that its rotary shaver design is a protectable trade dress, this time at the expense of Sears, Izumi, the public interest, and judicial efficiency.

SUMMARY OF THE ARGUMENT

The Federal Circuit's vacatur is improper because it ignored the adverse effects of vacatur on Sears, Izumi, the public interest, and courts in other districts. Vacatur is improper where there are third party interests and "possible, although uncertain" preclusive effects. Here, instead of just "possible" preclusive effects, the Florida judgment had a definite and known preclusive effect: it had collaterally estopped Philips from relitigating its claim against Sears in Illinois.

After the Florida judgment was vacated, the trade dress count was reinstated by the Illinois district court. As this Court recognized in *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation,* 402 U.S. 313, 329 (1971), relitigation of issues already decided against the same plaintiff is not in the public interest. When used to eliminate unfavorable precedents, vacating judgments solely because litigants have settled on appeal also conflicts with the public interest.

Sears urges this Court to apply these principles and to reverse the Federal Circuit's vacatur of the Florida judgment.

ARGUMENT

In granting Philips' and Windmere's request for vacatur, the Federal Circuit defended its vacatur policy, explaining that "we do not hold vacatur must be granted, whatever the circumstances." (Petitioner's Appendix, "Pet.", A6). The circuit court did not, however, consider any circumstances beyond the fact that Philips and Windmere, the two parties to the appeal, had settled their entire dispute. The Federal Circuit totally ignored the adverse consequences of vacatur. Consideration of any

of those consequences leads in this case to a refusal to vacate the final judgment.

In particular, the Federal Circuit improperly disregarded the effect on other litigation. Here, for example, Sears, a party not consulted or involved in the Philips/Windmere settlement, was directly and adversely affected by the vacatur of the Florida district court judgment. It is unfair to Sears – and to Izumi, the manufacturer bearing the costs of repeated litigation against its distributors – to be forced to bear the cost and risk of relitigating issues already decided in Florida.

This Court has also recognized that the public interest also is harmed by subjecting defendants such as Sears to a retrial of claims previously decided in an earlier litigation. *Blonder-Tongue,* 402 U.S. at 329. Judicial resources better devoted to resolving fresh disputes are wasted in retrying issues already resolved in one full and fair adjudication. That public interest is even more significant where the relitigation involves a trade dress already adjudicated to be unprotectable. *See Sears, Roebuck & Co. v. Stiffel Co.,* 376 U.S. 225, 231 (1964) ("Sharing in the goodwill of an article unprotected by patent or trade-mark is the exercise of a right possessed by all – and in the free exercise of which the consuming public is deeply interested."); *Compco Corp. v. Day-Bright Lighting, Inc.,* 376 U.S. 234, 237-38 (1964).

When parties have attempted to manipulate the judicial system to avoid the preclusive effects of adverse judgments, as Philips has done here, other courts have properly refused to vacate. Thus, in *Ringsby Truck Lines, Inc. v. Western Conference of Teamsters,* 686 F.2d 720 (9th Cir. 1982), the court explained:

> If the effect of post-judgment settlements were automatically to vacate the trial court's judgment, any litigant dissatisfied with a trial court's findings would be able to have them wiped from the books. "It would be quite destructive to the principle of judicial finality to put such a litigant in a position to destroy the collateral conclusiveness of a judgment by destroying his own right of appeal." 1B Moore's Federal Practice ¶0.416[6] at p. 2327 (2d ed. 1982).[2]

The court recognized that the lower court judgment would be entitled to collateral estoppel effect had the appellant not taken the appeal at all. The court then pondered whether the situation should be different from where the appellant appeals and later settles the action thereby securing its dismissal. 686 F.2d at 722. It concluded that the "answer may be different in different cases as equities and hardships vary the balance between the competing values of right to relitigate and finality of judgment." *Id.*

According to the Ninth Circuit, key among the factors to be balanced is the losing party's attempt to eliminate a collateral estoppel effect. In *National Union Fire Insurance Co. v. Seafirst Corp.*, 891 F.2d 762, 765 (9th Cir.

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[2]686 F.2d at 721. In so ruling, the Ninth Circuit distinguished mootness due to an appellant's "own act" from mootness caused by developments outside the party's control – the situation in *United States v. Munsingwear, Inc.*, 340 U.S. 36 (1950) (where a case is rendered moot by happenstance, the court should vacate the judgment below). *Id.* at 722. *See also Karcher v. May*, 484 U.S. 72, 83 (1987) (*Munsingwear* is not applicable unless the controversy becomes moot "due to circumstances unattributable to any of the parties"). Thus, where the controversy becomes moot by an action directly attributable to the parties, such as Philips' and Windmere's settlement, *Munsingwear* is not applicable.

1989), the district court denied the parties' request to vacate after settlement where it "could not avoid suspecting that National Union was motivated by a desire to avoid any *potential* preclusive impact on its other cases arising out of the . . . insurance policy." [Emphasis original].

Like Sears' case here, the "other cases" of *National Union* would have been profoundly affected by the collateral estoppel effect of the district court decision. There, National Union sued Seafirst for procurement of an insurance policy through fraud and misrepresentation, and Seafirst counterclaimed for breach of contract. National Union also brought separate actions against Seafirst's attorney, accountant, and insurance broker. After a jury verdict against National Union on the fraud count, National Union and Seafirst settled, with Seafirst agreeing that National Union could pursue the attorney, accountant, and broker. National Union and Seafirst then jointly moved for vacatur, and the attorney, accountant, and broker intervened.

The Ninth Circuit affirmed the district court's denial of vacatur, concluding that vacatur was not proper under the circumstances "[g]iven the third party interests in this case and the possible, although uncertain status of any preclusive effect." 891 F.2d at 769. It emphasized that "[t]o the extent there may be preclusive effect, National Union should not be able to avoid those effects through settlement and dismissal of the appeal." *Id.*

The practice of routinely vacating judgments on demand following settlement destroys essential functions the civil judicial system serves in generating decisions from litigated disputes. Individuals and businesses rely vitally on the resolution of important factual and other issues – here, that Philips has no right to foreclose others from selling rotary shavers like the Norelco® shaver.

Beyond that, through precedents, both the common law and statutory law is enunciated, shaped, and refined. Individuals, companies, and institutions depend on these precedents to guide their behavior. As one commentator has noted:

> A judgment includes elements of legal analysis which may have important consequences in other cases involving uninvolved parties . . . . The common-law legal system in the United States is based on the premise that previously decided cases have a public value in elucidating the law for future actors, as well as for future litigants.

Jill E. Fisch, *Rewriting History: The Propriety of Eradicating Prior Decisional Law Through Settlement and Vacatur,* 76 Cornell L. Rev. 589, 629-30 (1991).

When courts allow dissatisfied litigants to vacate judgments simply by settling cases after appealing an adverse ruling, litigants can effectively undermine the reliability of the developed law. Instead of undertaking the burden and risk of seeking to reverse or modify adverse decisions on appeal, litigants such as Philips can pay to have such precedents removed from the books so that they and others similarly situated can relitigate the issues decided against them. Neither the public interest nor the interest of justice is served when the development of the law is disturbed in this manner.

The Seventh Circuit has taken an even stronger position in *In re Memorial Hospital of Iowa County, Inc.*, 862 F.2d 1299, 1302 (7th Cir. 1988), by recognizing the potential for manipulation of the judicial system and refusing to allow litigants to treat the work product of courts as their own private property. The court denied vacatur after the parties settled, reasoning:

> When a clash between genuine adversaries produces a precedent, however, the judicial system ought not allow the social value of that precedent, created at cost to the public and other litigants, to be a bargaining chip in the process of settlement. The precedent, a public act of a public official, is not the parties' property. . . . To the extent an opinion permits the invocation of [collateral estoppel under] *Parklane* [*Hosiery Co. v. Shore,* 439 U.S. 322 (1979)], it may have great value to strangers – a value that one or another party to today's case may try to appropriate in the settlement, but which is not theirs to sell. If parties want to avoid stare decisis and preclusive effects, they need only settle before the district court renders a decision, an outcome our approach encourages.

Accord In re United States, 927 F.2d 626, 628 (D.C. Cir. 1991) (finding the reasoning of *Memorial Hospital* persuasive).

The case for denial of vacatur is particularly compelling here. Far from the "possible, although uncertain status of any preclusive effect" of *National Union,* the Florida district court judgment had a definite and known preclusive effect: the Florida judgment had collaterally estopped Philips from relitigating its trade dress claim against Sears in Illinois. Indeed, the Illinois court's decision expressly relied on the two prior jury verdicts:

> Twice Philips litigated these essential elements in *Windmere* and twice the jury found that Philips had not proven the required elements. As functional designs are not accorded any protection under trademark or unfair competition law, the court in *Windmere* found that Philips' trade dress was not protected. [Citations omitted].

(Pet. A29).

The Federal Circuit's vacatur of the Florida District Court's decision permits Philips to attempt for yet a third time to demonstrate that it has protectable rights in the trade dress of its shavers. In seeking to relitigate this issue, Philips exploits the judicial system. By its actions, Philips treats the Florida decision as an advisory opinion from which it can correct its mistakes and finally succeed on its trade dress claim. The time and resources of the courts are too precious to be wasted in this manner.

Sears should not be forced to relitigate Philips' claims, and the Illinois District Court should be spared from hearing them. Accordingly, Sears urges this Court to consider the adverse effects of vacatur on Sears, Izumi, and the public interest, and to hold that vacatur is improper in the present circumstances.

CONCLUSION

For these reasons, this Court should reverse the Federal Circuit's decision granting vacatur of the Florida judgment.

Respectfully submitted,

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